BancOhio Corporation

COLUMBUS, OHIO

January 29, 1959

Annual Report to the Shareholders:

The consolidated net income of your Corporation and the twenty-two affiliated banks for the calendar year 1958 amounted to $4,485,846 after provision for applicable taxes and reserves for loans and securities. On the basis of the Corporation's shares outstanding, the net income amounts to $4.77 per share compared to $4.24 in 1957 (adjusted to reflect the 7% stock dividend paid December 9, 1958).

Cash dividends paid in 1958 totaled $1,482,052; in 1957 $1,420,003 was paid. The cash dividend declarations in each year totaled $1.70 per share but the outstanding shares were increased by the 4% 1957 stock dividend and the issuance of 10,500 shares in exchange for shares of the Kenton Savings Bank of Kenton, Ohio. The 7% nontaxable stock dividend paid in December 1958 represented a market value equivalent to $3.21 per share on the stock previously outstanding and effects a capitalization of the Corporation's equity in retained 1958 net profits of the affiliated banks.

The capital and surplus of BancOhio Corporation at the close of 1958 amounted to $41,933,641 compared to $38,435,339 at the beginning of the year. On the basis of the stock outstanding, the book value per share on December 31, 1958 was $44.57 compared to $41.35 at the close of 1957 (adjusted to reflect the 7% stock dividend), an increase of 7.8%. The Corporation's equities in capital of the affiliated banks increased $2,768,877 and the Corporation's assets were further expanded $438,145 by the acquisition of the Kenton Savings Bank, as previously noted.

The reserves of the affiliated banks were strengthened in 1958 by a net addition of $771,650 to reserves for loans. Under a special regulation applicable to banks, loan reserves may qualify as a deduction from income subject to federal income tax — our tax savings for 1958 is estimated at approximately $360,000. These additions to loan reserves were considered to be prudent in respect of the 11.2% increase in 1958 in the loan accounts of the banks. It should be noted that the loan reserves which are deductible for tax purposes are fully available to offset possible future losses but their use for any other purpose would reimpose the tax liability.

The affiliated banks recorded a net gain in 1958 from the sale of securities which amounted to $1,393,413 after applicable taxes. In view of the depressed state of the markets for all fixed interest securities this net capital gain was credited directly to the bond valuation reserve account. This reserve may be utilized to offset losses which may be incurred in future security transactions. Such transactions are very frequently necessary in active commercial banks in order to adjust to the varying requirements of their customers. It is inherent in the functioning of commercial banks that they are subject to the necessity of interim adjustments to changing interest rates and the demand and supply factors in the money market. In order to provide gross income sufficient to cover expenses and to produce a profit for the owners, banks cannot long refrain from investing their surplus cash and this entails a degree of investment risk against which valuation reserves for liquid security investments should be maintained.

While three successive annual stock dividends have been declared it should be noted that the circumstances existing at the time must determine the feasibility of future declarations. In the last three years the prospective return on capital, the growth in resources and demand for loans in the affiliated banks and the general economic conditions then existent, warranted the corporate capitalization of a substantial portion of the Corporation's equity in the retained net profits of the BancOhio banks.

In January this year the Ohio National Bank of Columbus and the First National Bank of Newark have taken action conditional to the approval of the Comptroller of the Currency, which will increase permanent capital account from $4,000,000 to $8,000,000 for Ohio National and from $300,000 to $500,000 for First National, Newark. These increases will represent transfers to capital accounts from the accumulated net retained profits of previous years. These actions reflect the common policy of your Corporation and the affiliated banks to effect increases in fixed capital in keeping with their growing public responsibilities and services.

Your Corporation is continually alert to implement the expanding service potentials of your banks. In this respect it should be particularly noted that the Corporation has in January this year subscribed $250,000 of additional capital for the Ohio State Bank which has been granted authority to establish a new banking office in downtown Columbus, at 62 East Broad St., on the State House Square. This will be the first addition to central Columbus banking offices in thirty years. Since its incorporation in 1950, the administration of this bank's two offices serving eastern suburban Columbus has been characterized by flexible operating policies and services tailored to meet specific community requirements. We are confident that this young and distinctive state chartered bank will offer personalized banking services which will be accorded favorable public reception.

It is gratifying to report that an exchange of their shares for BancOhio shares by 100% of the shareholders of the Kenton Savings Bank has brought this central Ohio, Hardin County bank, founded in 1875, into the BancOhio family of banks as a fully participating member preserving complete proportionate shareholder interest. The full complement of directors, officers and staff will continue to serve this bank. Its fourteen experienced directors afford broad public representation in the area and BancOhio's staff is happy to lend assistance to their administration in the interest of expanding the bank's public services. In addition to the main office of the bank in Kenton, Ohio, branch offices are maintained in the nearby Dunkirk and Ridgeway communities. This joinder of interests was approved by the Board of Governors of the Federal Reserve System, evidencing a conformity to the standards for bank holding company expansion specified in the provisions of the Bank Holding Company Act of 1956.

The preceding comments are pertinent in respect of the proposal sponsored by the Board of Directors recommending an increase in the authorized shares of the Corporation, to be considered in the annual meeting of the shareholders. Since incorporation in 1929, for expansion purposes the shareholders have approved two increases over the original authorization of 600,000 shares — as of now 940,751 (94.1%) of our presently authorized 1,000,000 shares have been issued. The directors have no present plan or intention to issue any of the proposed new shares nor are they committed to a policy of annual stock dividends which might rapidly exhaust the present authorization. However, with only 5.9% of the presently authorized stock unissued it is obvious that the growth of your Corporation through opportunities to negotiate new affiliations by exchange of shares will be sharply restricted unless the authorization is enlarged. The Corporation will continue to pursue every opportunity for expansion by affiliation with additional banks on a mutually beneficial basis.

Attention is called to the attached statements included as a part of this report. With reference to these schedules it may be noted that the average resources of your banks in 1958 were $692,967,000, an increase of 6.1% compared to 1957. Contrary to the national trend, the BancOhio banks were able to expand their loan volume to former and newly acquired customers — this was the major factor contributing to the increased 1958 net operating income. Extensive participation in personal financial relationships with customers is attested by the 57,756 BancPlan loans made for a total of $50,551,000. In this field and in business loans and loans secured by real estate liens, significant increases were obtained, so that overall loan income totaled $11,154,019 or 11.2% more than the 1957 record. The record for 1958 is particularly note-worthy in view of the recession in business nationally during the major part of the year.

The 22 member banks in the BancOhio family operate 49 banking offices servicing approximately 450,000 active accounts. The total of such accounts, the volume of activity, the average resources, the gross earnings and the final net profits, all registered new high levels in the history of your Corporation. The record for 1958 attests to the major accomplishments and in increased public service achieved by the 210 directors and 1429 members of the staff of your banks.

Respectfully submitted,

Derrol R. Johnson

President

BANCOHIO CORPORATION
(Parent company only)

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1958

Income:		
Dividends from subsidiary banks		$1,839,810
Interest		102,594
Other income		645
		$1,943,049
Expenses:		
Salaries, sundry taxes and other operating expenses	$557,652	
Less — service charges to subsidiary banks	480,800	
		76,852
		$1,866,197
Federal income taxes — estimated		148,500
		$1,717,697
Additional provision for prior year federal income taxes		728
Net income for the year		$1,716,969

STATEMENT OF SURPLUS
YEAR ENDED DECEMBER 31, 1958

Balance at December 31, 1957		$21,060,951
Increase in equity in net assets of subsidiary banks represented by:		
Undistributed net operating income — after provisions for possible future bad debts and loan losses	$2,765,192	
Net gains on security sales (after taxes)	1,374,875	
	$4,140,067	
Provision for possible future market depreciation in U.S. Treasury securities	1,371,190	
	$2,768,877	
Net income, per accompanying statement	1,716,969	
		4,485,846
Reserve provided in prior years, in respect of bank liquidated in 1954 — no longer required		24,294
Adjustment for changes in minority interests in subsidiary banks		10,621
Surplus arising from issuance of 10,500 shares of BancOhio capital stock — par value $210,000 — for the capital stock of The Kenton Savings Bank having a net asset equity of $459,593		249,593
Adjustment of capital stock for expired scrip certificates (representing 18.049 shares)		248
		$25,831,553
7% stock dividend of 61,544 shares declared in 1958 from surplus from increase in equity in net assets of subsidiary banks — at $45.79 a share, approximate market value*	$2,818,100	
Less — excess of market over par value*	1,587,220	
Amount transferred to capital stock account equal to the $20 par value of the shares issued	$1,230,880	
Cash dividends paid — $1.70 a share	1,482,052	
		2,712,932
Balance at December 31, 1958 (see note to balance sheet)		$23,118,621

*In the surplus segregation shown in the note to the accompanying balance sheet $2,818,100 was deducted from "Surplus from increase in equity in net assets of subsidiary banks" and $1,587,220 was added to "Capital surplus".

THE BANCOHIO BANKS

DEPOSITS, CAPITAL AND SURPLUS, UNDIVIDED PROFITS AND CONTINGENT RESERVES — COMBINED AT DECEMBER 31, 1958

		Total deposits	Capital and surplus	Undivided profits and contingent reserves	Net assets
OHIO NATIONAL BANK OF	COLUMBUS	$418,387,101	$20,000,000	$2,867,526	$22,867,526
FIRST NATIONAL BANK OF	CADIZ	7,039,972	475,000	49,408	524,408
FIRST NATIONAL BANK OF	CHILLICOTHE	16,876,745	1,050,000	219,627	1,269,627
SECOND NATIONAL BANK OF	CIRCLEVILLE	3,750,317	300,000	90,304	390,304
FIRST NATIONAL BANK OF	COSHOCTON	14,702,000	1,000,000	237,450	1,237,450
FIRST NATIONAL BANK OF	DELAWARE	12,373,304	750,000	174,886	924,886
KENTON SAVINGS BANK	KENTON	4,674,701	300,000	170,758	470,758
HOCKING VALLEY NATIONAL BANK OF	LANCASTER	12,124,987	600,000	154,655	754,655
FARMERS & MERCHANTS BANK OF	LOGAN	8,900,359	475,000	135,832	610,832
FIRST NATIONAL BANK OF	LONDON	6,623,513	425,000	111,486	536,486
FIRST NATIONAL BANK OF	MARYSVILLE	7,030,837	450,000	132,256	582,256
KNOX COUNTY SAVINGS BANK	MT. VERNON	8,425,407	700,000	182,214	882,214
FIRST NATIONAL BANK OF	NEWARK	19,819,911	1,300,000	320,720	1,620,720
PERRY COUNTY BANK	NEW LEXINGTON	2,923,315	175,000	51,931	226,931
THE NATIONAL BANK OF	PORTSMOUTH	12,032,429	750,000	155,135	905,135
FIRST NATIONAL BANK OF	SPRINGFIELD	31,985,041	2,200,000	346,403	2,546,403
FIRST NATIONAL BANK OF	TIFFIN	6,984,152	550,000	127,581	677,581
FIRST NATIONAL BANK OF	WASHINGTON C.H.	8,166,634	400,000	125,797	525,797
OHIO STATE BANK	WHITEHALL	10,246,752	400,000	133,873	533,873
FIRST NATIONAL BANK OF	WILMINGTON	5,396,932	400,000	93,314	493,314
WORTHINGTON SAVINGS BANK	WORTHINGTON	10,769,390	500,000	138,991	638,991
CITIZENS NATIONAL BANK IN	ZANESVILLE	19,173,230	1,050,000	270,669	1,320,669
COMBINED TOTALS		$648,407,029	$34,250,000	$6,290,816	$40,540,816
Less — Minority interests			662,534	232,741	895,275
BancOhio Corporation equity			$33,587,466	$6,058,075	$39,645,541

THE BANCOHIO BANKS

SUMMARY OF COMBINED TOTAL NET ASSETS AT DECEMBER 31, 1958

Assets:		
Cash and due from banks (including $5,109,179 due from affiliated bank)		$139,172,646
Securities—at amortized cost:		
U.S. Treasury securities	$252,390,947	
State and municipal bonds	70,913,588	
Other bonds and securities	10,771,868	
	$334,076,403	
Less — reserve for possible future market depreciation in U.S. Treasury securities	2,907,493	
		331,168,910
Stock in Federal Reserve Bank		986,250
Loans, less $5,265,995 reserves		220,405,516
Banking premises and equipment, less depreciation		6,587,675
		$698,320,997
Liabilities:		
Demand deposits (including $3,543,757 deposits of affiliated banks and BancOhio Corporation)	$480,254,054	
Time deposits	168,152,975	
		$648,407,029
Interest, taxes, etc.		3,928,487
Unearned income		5,444,665
		$657,780,181
Combined total net assets		$ 40,540,816

SUMMARY OF CHANGES IN COMBINED TOTAL NET ASSETS DURING 1958

Combined total net assets at December 31, 1957		$ 37,267,425
Net assets of The Kenton Savings Bank of Kenton, Ohio, at date of acquisition		459,593
Net income for 1958:		
Net operating income — after provisions for possible future bad debts and loan losses	$ 4,689,417	
Net gains on security sales (after taxes)	1,393,413	
	$ 6,082,830	
Provision for possible future market depreciation in U.S. Treasury securities	1,389,532	
		4,693,298
		$ 42,420,316
Cash dividends paid ($1,839,810 to BancOhio Corporation)		1,879,500
Combined total net assets at December 31, 1958		$ 40,540,816

BANCOHIO CORPORATION

(Parent company only)

(An Ohio corporation — Incorporated in 1929)

BALANCE SHEET — DECEMBER 31, 1958

ASSETS

Deposits in banks ($156,320 in subsidiary bank)	$ 196,998
U.S. Government and federal agency securities, at amortized cost (approximate market $1,635,000)	1,711,362
Notes receivable (including $390,949 from directors of subsidiary banks)	565,949
Investments in shares of subsidiary banks (acquired for BancOhio capital stock and cash) stated on basis of equity in net assets of the banks at December 31, 1958	39,645,541
	$42,119,850

LIABILITIES

Federal income taxes and other liabilities — estimated	$ 186,209
Capital stock — $20.00 par value:	
Authorized — 1,000,000 shares	
Issued — 940,751 shares	18,815,020
Surplus (see note below) per statement attached	23,118,621
	$42,119,850

Note:

Accepting December 31, 1934 as a starting point and after deducting from "Surplus from increase in equity in net assets of subsidiary banks" $7,337,927 for stock dividends declared from such surplus in 1956, 1957 and 1958 as permitted by law, the total surplus account would be segregated as follows:

Capital surplus (net)	$ 6,044,003
Surplus from increase in equity in net assets of subsidiary banks — since December 31, 1934	14,186,478
Earned surplus — since December 31, 1934	2,888,140
	$23,118,621

Price Waterhouse & Co.

Fifty West Broad Street
Columbus 15, Ohio
January 15, 1959

To the Board of Directors of
BancOhio Corporation

We have examined the 1958 financial statements of BancOhio Corporation (parent company only). Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, but we did not examine the financial statements of the subsidiary banks. However, for all subsidiary banks (except two for which reports had not yet been completed) we reviewed the copies of the state and national bank examiners' reports presented to us covering examinations made by them during 1958.

The investments in subsidiary banks are stated on the basis of the parent company's equity in the net assets of the banks as shown by their December 31, 1958 financial statements; the net increase in the investment account, resulting from such basis, is included in surplus. The financial statements of the banks were certified by responsible bank officials to be copies of the statements filed with either the Comptroller of the Currency or The Division of Banks of the State of Ohio.

Based on our examination described above, and with the explanation in the preceding paragraph as to the basis for stating the investments in the subsidiary banks, as well as the explanation in the Note to the balance sheet regarding the application of stock dividends, it is our opinion that the accompanying balance sheet and statements of income and surplus of the parent company — BancOhio Corporation — present fairly its position at December 31, 1958 and the results of its operations for 1958, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.